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THE
ACCOUNTING METHODS

OF THE
CITY OF CHICAGO.

LETTER SUPPLEMENTAL TO REPORT

OF MARCH 21, 1901,

TO THE

MERCHANTS CLUB.

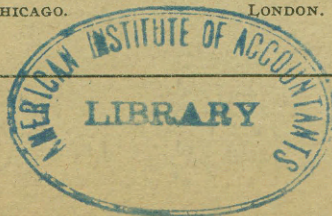
APRIL 13, 1901.

HASKINS & SELLS,
CERTIFIED PUBLIC ACCOUNTANTS.

30 BROAD STREET,
NEW YORK.

CHICAGO.

LONDON.



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CERTIFIED PUBLIC ACCOUNTANTS.
30 BROAD STREET,
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CHICAGO. LONDON.

April 13, 1901.

Messrs. Aldis, Cox and McCormick;

Gentlemen:—At your request as Special Committee of the Merchants Club, we have made an examination, of which a report has been transmitted, of the accounting methods of the City of Chicago.

The examination was facilitated in every practicable way by the municipal administrative authorities; and has been as comprehensive as the condition of procurable records would allow.

The accounts, as you will see by the report, are in a deplorable condition; due mainly to the survival of methods of control and record utterly inadequate to the requirements of one of the great cities of the modern world.

The continued existence of this condition of the accounts is evidence in itself of the non-existence of any system of regular exhaustive business audit.

As a fact, no provision for such proper settled audit has been made by the aldermen in council; and its absence, and a consequent general laxity of accountability, was glaringly apparent at every stage of the investigation.

The report shows, with many other examples of this *laissez faire* method of business, that taxes to the amount of about five hundred thousand dollars a year for the past decade have been released as loss and deficiency upon the mere unquestioned word of the tax gatherers; that payment of mileage and license under the franchise law, when offered at all, has been accepted without audit; that vouchers have been paid uncertified; that subsidiary special assessment ledgers have stood both unbalanced and unverified; that clerical errors, such as posting hundreds for thousands of dollars, have remained uncorrected; and that books of record have been destroyed.

Collectively, the departmental methods are inharmonious; forming, not a uniform system of accounts, but an agglomeration in which error, and even fraud, might lurk undetected.

This incompatibility of the departmental methods one with another is exemplified in a discrepancy of more than four million dollars in the

total value of the municipal water works as shown by two sets of the city's books; in a variation of about one and a quarter million dollars in the balance applicable to the sinking funds as shown by the records in two different offices; in a difference of nearly eight million dollars in two contemporaneous statements of money received for the public schools; and in various other incongruities set forth in the report.

Individually, with one recent exception, as noted, these methods are crude, indirect, inelastic, and discouragingly difficult of application; and the resultant accounts are unreliable and often plainly partial and incorrect.

These faulty methods have led to forced balances, a frequent lumping of accounts, wholesale omissions, arbitrary entries of millions of dollars each, credits in anticipation of money expected, and the like; and are responsible for the possible duplicate payment of claims against the municipality, and for the direct official statement, shown by the report to be questionable, that the city debt has been reduced more than one and a half millions of dollars during the past two years.

As a general result of the prevailing confusion, the balance sheet is incomplete; the civic body are in the dark as to the condition or the wants of the treasury; officials, of whatever party, are brought under a cloud of suspicion; and a vague charge of incompetency is allowed to lie against a city otherwise celebrated for the business ability of its inhabitants.

Many reforms have been attempted; some with a degree of success, but all serving to emphasize the need of a modern uniform system of accounts and an improved financial administration.

A series of reforms, believed to be entirely practicable, are suggested in the report. They begin with improvements nearest to hand, and look to the final municipal unity of Greater Chicago. The changes indicated, viewed in the order of attainability, contemplate action, first and immediately, by the city authorities; secondly, by the legislature; and thirdly, by a constitutional convention.

First, as to what may be immediately accomplished:—The council and comptroller, in co-operation, may establish a uniform system of municipal accounts—an outline of which accompanies the report—and a proper auditing bureau; and therewith the fee system should be abolished, the treasurer becoming a salaried officer, reasonably bonded and subject to the general system of account and audit.

The total possible saving to the treasury within the present reach of the council and comptroller is beyond compute. An annual aggregate of four hundred thousand dollars is a very conservative estimate, as summed up in the report, of the saving to be effected by changing the compensation of the treasurer, properly investing the sinking funds, enforcing the laws regarding the pay of the town collectors, promptly collecting and distributing the special assessment warrants, verifying the statements of tax gatherers and recording and accounting for tax purchases and taxes stayed, and changing the methods of collecting taxes and special assessments; to

say nothing of the amounts that would accrue from the enforcement of the special franchise ordinances, or of the monetary as well as moral value of a proper system of accounts and a bureau of audit.

A merging of the towns into one, pending the abolition of all township government, would effect a material economy; and the final wiping out of the whole township nuisance would save to the city, as explained in the report, nearly a quarter of a million dollars a year forever.

An overhauling of charter provisions, also, would result in important savings of money in the conduct of public affairs. As a town and as a city, Chicago has done business under six different charters; and to-day, six times as large as when it adopted the last, the "cities and villages act" of a generation ago—which retains many of the objectionable features of its predecessors as to park boards, townships, and the like—it is ripe in every sense for a new charter adapted to the wants of the great interior metropolis of the western world.

The ultimate destiny, however, of the New Chicago, is consolidation. Its present piecemeal government is grotesque in the extreme; from the standpoint of economic utility, it is utterly indefensible. The dissipation of public wealth, entirely due to the diversity of governing agencies and taxing bodies, is incalculable; as, on the other hand, an estimate cannot be attempted of the value, material and moral, of municipal unification to the future welfare of the community.

Municipal organization and the integrity of the local revenue have become, within recent years, the subject of profound interest among men of public spirit throughout the United States. A rapidly increasing number of associations of citizens are grappling with the hundred and one problems as to how best to administer the affairs of the town, the county, and the city. Conventions are held, addresses are delivered, the newspaper and the magazine are utilized, and important volumes of proceedings are issued; all with respect solely to the interests of the municipality.

State legislation for the higher welfare of the municipality is making some headway against a tide of interested opposition. California, Minnesota and Wisconsin are as yet foremost in the general movement for charter reform; and Iowa has authorized the appointment of a municipal code commission. For the best examples of State supervision of accounts, we must look to our newer States. Wyoming has constitutional provision for a State examiner of accounts. North and South Dakota provide for uniform accounting of all municipal revenues. Minnesota has provided for an examining officer. Texas has planned for State supervision over all public indebtedness. Massachusetts has a comptroller of county accounts. Indiana provides for municipal accounting under the State auditor. And the question of uniform accounting throughout the State has reached the General Assembly of Illinois.

The National Municipal League, organized in New York in 1894, and now reporting one hundred and nineteen affiliated societies, has held

annual conventions in Minneapolis, Cleveland, Baltimore, Louisville, Indianapolis, Columbus, and Milwaukee. Among the delegates to these conventions have been a number of prominent citizens of Chicago. An outline of a model municipal charter—known as the “Municipal Program”—has been formulated by the League; and has been of material utility in the construction of the new charters being adopted throughout the country. The system of accounting outlined in our report, and the recommendations as to the care of the city’s interests, are in general harmony with accepted thought as expressed in the deliberations of the League.

It would be almost invidious to attempt a selected list of American cities that have recently adopted radical changes of organization looking to the betterment of their government and the safety of their public money. San Francisco has adopted a new charter by popular vote; other California cities have followed; and the movement has been sustained by decision of the Supreme Court. New York, and several other cities in the same State, have adopted new charters. Milwaukee, and other Wisconsin cities; Minneapolis, Saint Paul, Duluth, Mankato, and all other good-sized cities of Minnesota; Mobile; New Orleans; Baltimore; have all secured new charters in the interests of economy and good government. Wilmington, Delaware, has kept up a plucky fight for charter reform; and in many other cities, including Providence, Jersey City, Pittsburg, Raleigh, Jacksonville, Chattanooga, and Grand Rapids, movements to amend or renew their charters have been successfully prosecuted or are still in progress.

The movement for a general uniformity in municipal accounting presents to the City of Chicago an opportunity to establish a system worthy of imitation. Uniformity of accounts, extending throughout the State, is in every way desirable, if only the methods are uniformly good. Good accounting, together with a bewildering multiplicity of related drainage, park, library, school, town, county, city, legislative and constitutional questions as to finance and government, is a problem for Chicago to solve. The crowning triumph of Chicago will consist in the attainment of such orderly administration of municipal wealth as becomes a great business metropolis.

This is a business matter; and its vital importance can be realized by a club of business men. Chicago, which is primarily a business centre, should not remain behind other cities in its municipal business methods. A decided advance and first step can be made by the co-operation of the finance committee of the council with the comptroller along the line indicated in our fuller report. The movement set on foot by the Merchants Club of Chicago will, it is hoped, attain the end desired.

Respectfully,

HASKINS & SELLS.